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Analysis of Business Trends Plus Selected Financial Indicators

October Surprise?

With the Presidential election campaign entering the home stretch, the debate surrounding the health of the economy is reaching a feverish pitch. For months, analysts have found themselves deeply divided over the economy's direction, scrutinizing each and every economic statistic for signs of either business lethargy or life. To make matters worse, by the time the analysts' uncertainty is filtered through the media prism, the impact on Main Street is an understandable dose of confusion, leavened with a fair degree of despondency. Yet, in spite of the prevailing folklore that a brutal recession is underway or the persistent influence of such "culprits" as anemic employment growth and a plunge in defense-related procurement, the fact is that the economy has defied the dour pundits and has actually been growing nonstop since the spring of last year. To be sure, the business pace has been more of a crawl than a sprint—bad news for the jobless, but good news for inflation and interest rates.

If there is to be a so-called "October surprise" in this election season, it might be the economy's better-than-expected performance in the third quarter. Although it was widely assumed that plunging consumer confidence and rising joblessness would decidedly deter household spending during the summer months, it didn't turn out that way. Bolstered by a brisk upturn in department store sales, retail sales advanced at a nearly 5½ percent annualized clip in the third quarter, far faster than the second quarter's minuscule 0.9 percent advance. What is more, the pickup in retail sales may be even more noteworthy than a superficial glance suggests, especially when you consider the relentless consumer shift away from higher-cost retailers and toward the discounters that is now underway. While this has trimmed the level of retail sales when measured in today's dollars, and misleadingly raised the specter of a consumer-led dive, consumption spending was far from a drag on the economy in the third quarter; including services spending, and adjusting for inflation, it probably added better than two percentage points alone to gross domestic product growth in the quarter just past.

The quickening of third quarter consumer spending would have been even more pronounced if a larger proportion of the droves of window shoppers visiting automobile showrooms actually purchased new passenger cars. But while the languishing of automobile sales in recent months is widely trumpeted as a footprint of economic malaise, it is also reflective of something else altogether, namely, the growing popularity of light trucks such as mini-vans and sport-utility vehicles. For just as the trend toward retailing discounters is shaving the reported dollar value of retail sales, the rapid growth of the light truck market may be doing the same thing to passenger car sales. Truck sales now account for a record 40 percent of the domestic motor vehicle market and, while passenger car sales have been standing still, light truck sales have leaped nearly 30 percent when compared with year-earlier levels.

Ball and Chain

While household spending may have blunted economywide weakness elsewhere in the third quarter, there is no assurance that this behavior will be repeated. With defense industries at the receiving end of a double-digit downturn in procurement, construction firms struggling to secure new work and countless financial institutions striving to cut costs, employment prospects have dimmed, and job growth in both the goods- and service-producing industries has been anemic—the understandable underpinnings of widespread unease. Over the past year, in fact, only 116,000 payroll jobs have been created and, because of this, the nationwide payroll count still stands nearly two million persons below the peak employment level reached in mid-1990. By most measures, the American job machine seems to be misfiring acutely when compared with prior experience; in the preceding eight recoveries from postwar recessions, it has taken an average of just ten months to recapture all of the jobs lost during the business downturn.

The reverberations of what appears to be a bleak job picture range from tumbling confidence levels to gridlock in the home trade-up market to slow absorption of vacant commercial real estate. But while this ball and chain looms large, it is not a sure bet either that this is an insurmountable obstacle to future growth. For one thing, while the payroll count looks grim, and the duration of joblessness is lengthening, a large number of people have turned to self-employment. The household survey of

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labor market trends, which includes these people, paints a far brighter picture; by this measure, adult employment currently stands at better than 112 million persons, a tiny 0.3 percent below the all-time high reached in July of this year. For another, while today's 7½ percent jobless rate is nearly two percentage points higher than two years ago, it has remained at or above this level for only three months. This pales by comparison with the job picture ten years ago when, with the economy poised to embark on its longest peacetime expansion, the jobless rate was locked above 7½ percent for 32 straight months. And, finally, the burden of unemployment is hardly shared equally. Although such industrial states as California, Michigan and New York are posting jobless rates well above the national average, a 35-state majority—largely clustered in the nation's midsection—possess unemployment rates below the national average.

Two Remedies

Although the past quarter may have been better than expected, and the rebuilding of storm-ravaged South Florida should provide a solid boost to the economy in the months ahead, it

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/92)	126,833	- 5,066	- 50,473
New York City (10/7/92)	25,370	+ 3,553	- 4,445
Commercial Paper (10/7/92)	552,194	+ 2,450	+ 21,548

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/92)	278,444	+ 2,747	- 21,564
New York City (10/7/92)	46,840	+ 281	- 6,952

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/92)	991,952	+ 6,227	- 23,033
New York City (10/7/92)	156,223	- 1,755	- 10,838

Financial Markets

	Friday 10/16/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, 2 p.m. Yields:			
90-Day Bills†	2.95%	+ .06	- 2.21
180-Day Bills†	3.10	+ .05	- 2.16
Longest Bills†	3.29	+ .12	- 2.08
Recent Issues:			
4s 9/30/94	4.01	+ .05	
5½s 9/30/97	5.44	- .06	
6s 10/15/99	6.59	+ .08	
7¼s 8/15/22	7.53	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (10/15/92)	6.34%	+ .05	- .33
Blue List Total ($ Million)	$1,609	+ $355	+$ 509
30-Day Visible Supply ($ Million)	$7,053	- $767	+$3,241
Total	$8,662	- $412	+$3,750
Corporates:			
Moody's Aa Composite (10/15/92)	8.31%	+ .08	- .54
30-Day Visible Supply ($ Million)	$2,375	+ $391	+$2,225
Stocks: (Thursday)			
Dow-Jones Averages:			
Industrials	3,174.41	+ 37.83	+ 97.26
Transportation	1,283.21	+ 63.65	- 3.79
Utilities	218.14	+ 3.38	+ 3.38
65 Stocks	1,134.25	+ 26.78	+ 22.41
N.Y.S.E. Composite Index	226.44	+ 4.33	+ 10.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	218,077	+ 7,606	+22,487

*34% Taxable equivalent 9.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/16/92	Week Ago
Overnight	3.06%	3.06%
1 month	3.13	3.19
3 month	3.31	3.31
6 month	3.31	3.31
1 year	3.56	3.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/16/92)	Currency Per U.S. $	Week Ago
Belgium	30.06	30.40
Canada	1.2491	1.2495
France	4.9738	5.0053
Germany	1.4641	1.4754
Italy	1285.50	1307.64
Japan	120.45	121.45
Mexico	3114.00	3109.01
Netherlands	1.6494	1.6684
South Korea	783.60	786.50
Switzerland	1.3066	1.3052
Taiwan	24.98	25.00
U.K.*	1.6795	1.6870

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (10/16/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/86
	+0.2%	-18.9%

still seems that a convincing business revival must await a brightening of employment prospects in all areas. Arguably, the seeds for a deep-rooted business upturn are in place—inflation is dormant, short-term interest rates are touching 30-year lows, housing affordability has been greatly enhanced and inventories are lean virtually across the board—but these pluses have existed for months, and none has unlocked the door to quicker growth. For that to happen, there appear to be two remedies.

First, corporate America could complete the repair of its badly worn balance sheet, taper its cost-cutting zeal and again switch on the idling jobs machine. Although the process has commenced (Financial Digest—August 10, 1992), its completion is months, if not years, away. And, second, with monetary policy having done almost all it can to stimulate the economy, the time may be ripe for a fiscal policy assist, despite the short-run Federal deficit-widening implications. With impatience rising, the fiscal boost appears to be the evermore attractive, and likely, course. While this may not play well to the skeptics on Wall Street, it could give a much needed lift to the restless on Main Street.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/14/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	289.648	+ 2.565	+26.502
Loans to Depository Inst.	.185	+ .001	- .135
Float	.997	+ .671	+ .395
Total Reserve Bank Credit	323.094	+ 3.538	+27.154
Treasury Deposits with Federal Reserve Banks	4.555	- .944	+ .069
Currency in Circulation	321.127	+ 2.289	+24.543
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	287.507	+ 3.302	+39.823
Member Bank Reserves:	10/14/92		
Total Reserves Held	52.782	+ 1.788	+ .859
Excess (Deficiency)	1.115	- .090	+ .099
Net Free Reserves	.930	- .016	+ .197

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (10/5/92)	1,000.6	+ 16.7	+ 13.6
M2 (10/5/92)	3,485.5	+ 2.8	+ 2.0
M3 (10/5/92)	4,156.9	+ 2.2	+ 0.5
Domestic Nonfinancial Debt (2nd Q'92)	11,459.8	+ 4.6	+ 4.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/16/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	2.90%	3.02%	3.16%
* Federal Agencies	3.00	3.15	3.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	4.09	4.24
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.00	3.00	3.25

‡ Finance Company Paper–Prime

5- 14 days	3.15%
15- 29 days	3.18
30- 59 days	3.25
60- 89 days	3.25
90-179 days	3.40
180-239 days	3.40
240-270 days	3.40

‡* Bankers' Acceptances

Nov.	3.05%
Dec.	3.05
Jan.	3.05
Feb.	3.18
Mar.	3.17
Apr.	3.17

‡ Industrial Paper–Prime

30- 89 days	3.20%
90-120 days	3.25

†Federal Funds Effective Rate 2.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5,902	$ 5,840	$ 5,658
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4,892	$ 4,874	$ 4,817
Percent Change, Annual Rate	2nd Q'92	1.5	2.9	1.7
Change in Consumer Prices*	Sep '92n	2.4%	3.6%	4.8%
Change in CHEM Cost of Living Index*	Sep '92n	4.8%	6.0%	6.0%
Change in Producer Prices*	Sep '92n	3.6%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	Sep '92	117,701	117,737	117,089
Unemployment as % of Civilian Labor Force †	Sep '92	7.5%	7.6%	6.8%
Personal Income*	Aug '92	$ 5,027	$ 5,051	$ 4,848
Leading Indicators Composite Index (1967=100) †	Aug '92	149.4	149.7	145.6
Industrial Production Index (1977=100) †	Sep '92n	108.6	108.9r	108.4
Net Change in Consumer Installment Credit †	Aug '92n	- $ 0.96	- $ 1.10r	- $ 1.51
U.S. Merchandise Trade Balance †	Aug '92n	- $ 9.00	- $ 7.28r	- $ 6.61
Plant and Equipment Expenditures*	4th Q'92	$ 562.4(a)	$ 565.2(a)	$ 528.9
Private Housing Starts (Thousands of Units)*	Aug '92	1,237	1,120	1,053
New Construction Expenditures*	Aug '92	$ 424.0	$ 427.5	$ 404.8
Total Business Inventories †	Aug '92n	$ 838.1	$ 835.4r	$ 819.7
Total Business Sales †	Aug '92n	$ 552.8	$ 559.7r	$ 536.8r

*Seasonally adjusted annual rate. † Seasonally adjusted.
n-Newly reported figure r-Revised. a-Anticipated.

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